**Name Change**. The name of the tax is changed to the Local Services Tax (LST).

**Effective Date**. This is the date when the taxpayer is liable for the new tax rate.

**Mandatory Low-Income Exemption**. Political subdivisions that levy an LST at a rate that exceeds $10 must exempt from the tax taxpayers whose total earned income and net profits from all sources within the political subdivision is less than $12,000.

**Upfront Exemption**. Employers are required to stop withholding the LST if an employee provides an exemption certification.

**Installment Collection**. If the combined rate of a municipal and school LST exceeds $10, it must be assessed and collected in installments based on payroll periods.

**Timing.** An LST imposed for the first time becomes effective on January 1 of the year following enactment of an ordinance authorizing the tax. The same holds true for an ordinance which changes the tax rate. The Department of Community and Economic Development (DCED) must be notified of the rate by December 1 of the year prior to the effective date for the tax to be shown on the [**Official Tax Register**](http://munstats.pa.gov/public/) that is released December 15.

**Assessment and Collection**. If the LST is levied at a combined rate[[**1**](https://dced.pa.gov/local-government/local-income-tax-information/local-services-tax/#combined_rate)] exceeding $10, the tax must be assessed and collected on a pro-rata basis determined by the number of payroll periods established by an employer for a calendar year. The pro-rata share of the tax assessed on each taxpayer for a payroll period is calculated by dividing the combined rate of the LST by the number of payroll periods established by the employer for the calendar year. When calculating the pro-rata share, employers are required to round down to the nearest one-hundredth of a dollar. For instance, a $52 tax would be collected at $1 per week for taxpayers paid weekly, or at $4.33 per month for taxpayers paid monthly. A $36 tax would be collected at 69 cents a week for taxpayers paid weekly, or at $3 a month for employees that are paid monthly. If the LST is levied at a combined rate of $10 or less, the tax may be collected in a lump sum.

**Withholding.** All employers with work sites within the taxing jurisdiction are required to deduct the LST from their employees at the site of employment if the tax is listed in the [**Official Tax Register**](http://munstats.pa.gov/public/). If the municipality and/or school district’s tax rates are not listed in the Register, employers are not required to withhold the LST from employee wages.

**Employers are only required to withhold the LST on a payroll period basis for those payroll periods in which the taxpayer is employed**. However, when two or more employers employ a taxpayer in a payroll period, an employer is not required to withhold the LST if the taxpayer provides a pay stub from his/her principal employer accompanied by an employee statement of principal employment (on a form developed by DCED) that the pay stub is from the taxpayer’s principal employer and that the taxpayer will notify the employer of any change in employment. Employers are relieved of liability for the tax if they fail to withhold the tax due to incorrect information provided by the taxpayer regarding the taxpayer’s principal employer or if the employer complies with the provisions establishing the collection of the tax on a payroll period basis.

**Concurrent Employment**. If a taxpayer has two or more jobs in different political subdivisions during a payroll period, the priority of claim to collect the LST is as follows:

1. Where the taxpayer maintains his or her principal office or is principally employed;
2. Where the taxpayer resides and works; and
3. Where the taxpayer is employed that is nearest in miles to the taxpayer’s home.

**Remittance**. Employers must remit withheld taxes to the designated tax collector 30 days after the end of each calendar quarter. If the combined tax rate exceeds $10, the municipal and school tax must be withheld together and remitted to the municipality or the tax collector, who are required to distribute the school’s share of the tax to the school district.

**Self-Employed Individuals.** If the combined rate of an LST exceeds $10, the tax should be pro-rated and paid by self-employed individuals on a quarterly basis, as if their payroll period is a calendar quarter. Self-employed taxpayers shall pay the tax to the municipality or the tax collector 30 days after the end of each calendar quarter.

**Limits**. The total LST paid by any taxpayer in a calendar year remains limited to $52, regardless of the number of political subdivisions in which an individual works during the year. Upon request, a political subdivision must provide a taxpayer with a receipt for payment of the tax. The total tax levied by a municipality and school district remains limited to $52. Taxpayers are not subject to the payment of the LST at more than one place of employment during a payroll period.

**School Districts**. School districts that did not levy an EMST/OPT as of June 21, 2007 are prohibited from levying a new LST. For those school districts that do not currently share the EMST/OPT with a municipality, their share of the new LST will be limited to $5 if at a later time the municipality levies an LST. School districts that levy an LST should adopt a resolution by December 31, 2007 amending the existing school district resolution for purposes of a name change and compliance with the provisions of Act 7 related to exemptions.

**Situs**: If the combined rate of the LST exceeds $10, the situs for payment is the place of employment on the first day the taxpayer becomes subject to the tax **during each payroll period**. If the combined rate of the LST is $10 or less, the situs for payment is the place of employment on the first day the taxpayer becomes subject to the tax **during the calendar year**.

**Low-Income Exemption**. Each political subdivision that levies an LST at a rate of $10 or less **is permitted** to exempt those taxpayers whose **total earned income and net profits from all sources within the political subdivision** is less than $12,000. Each political subdivision that levies an LST at a rate exceeding $10 **is required** to exempt persons whose **total earned income and net profits from all sources within the political subdivision** is less that $12,000 for the calendar year in which the LST is levied.[[**2**](https://dced.pa.gov/local-government/local-income-tax-information/local-services-tax/#municipalities)] The school district for the municipality in which a worksite is located may or may not levy an LST. If it does, the income exemption provided **may differ** from the municipality and can be anywhere from $0 to $11,999. “Income from all sources” is defined as the same “earned income” and “net profits” that are used to determine the local earned income tax.

**Upfront Exemption.** In order to receive an upfront exemption, employees must file an annual upfront exemption form (developed by DCED) with the political subdivision levying the LST and the employee’s employer. The exemption certificate would verify that the employee reasonably expects to receive earned income and net profits of less than $12,000 from all sources within the political subdivision for the calendar year for which the exemption certificate is filed. A copy of the employee’s last pay stubs or W-2 forms from employment within the political subdivision for the year prior to the calendar year for which the employee is requesting an exemption must be attached to the exemption certificate. Employers must make upfront exemption forms readily available to employees at all times and provide new employees with the forms at the time of hiring.

**Suspension of Withholding**. Upon receipt of an upfront exemption form and until otherwise instructed by the political subdivsion imposing the tax, employers must stop withholding the LST for the specific calendar year from employees for whom the exemption applies.

**Restoration of Withholding**. Employers must “restart” withholding the LST from an employee who files an exemption certificate in the following circumstances:

1. If instructed to do so by the political subdivision levying the LST;
2. If notified by the employee that they are on longer eligible for the exemption; or
3. If the employer pays the employee more than $12,000 for the calendar year.

Employers “restart” withholding of the LST by withholding (1) a “catch-up” lump sum tax equal to the amount of tax that was not withheld from the employee as a result of the exemption; and (2) the same amount per payroll period that is withheld from other employees. Except for monitoring when an employee who has filed an exemption certificate earns more than $12,000, the intent of the amendment is that **employers are not responsible for investigating exemptions, monitoring tax exemption eligibility or exempting an employee from the tax**.

**Military Exemption**. Political subdivisions must exempt from the LST: (1) members of a reserve component of the armed forces called to duty and (2) honorably discharged veterans who served in any war or armed conflict who are blind, paraplegic, or a double or quadruple amputee as a result of military service or who are 100% disabled from a service-connected disability.

**Refunds.** Political subdivisions must adopt regulations, consistent with the **Local Taxpayer Bill of Rights**[[**3**](https://dced.pa.gov/local-government/local-income-tax-information/local-services-tax/#53_pa)], for the processing of refund claims for persons who overpaid the LST. Refunds are not subject to interest if made within 75 days of either a refund request or January 30 of the year after the tax is paid, whichever is later. Political subdivisions are not required to provide refunds that are $1 or less.

**Use of Tax**. Existing restrictions on the use of the tax by municipalities are retained.[[**4**](https://dced.pa.gov/local-government/local-income-tax-information/local-services-tax/#act_222)] In addition, municipalities must use at least 25% of the tax revenues for emergency services. Municipalities, but not school districts, are specifically permitted to use LST revenues to reduce property taxes through a homestead or farmstead exclusion.

**Homestead or Farmstead Exclusion.** Municipalities that decide to enact a homestead and farmstead exclusion program must enact an ordinance to do so prior to December 1 for the exclusion to take effect in the following calendar year. After the ordinance has been enacted, the municipality is required to notify the county assessor by first class mail, who is required to provide the municipality with a certified report with the number of whole and partial homestead and farmstead exclusions approved that year. In each succeeding year, the county assessor must provide the certified report by December 1 or at the same time the tax duplicate is certified to the municipality, whichever occurs first. Municipalities must adjust the amount of the homestead and farmstead exclusions every year during budget preparation based on estimated LST revenues and the county assessor’s report.

**Notification of Homestead and Farmstead Exclusion Program**. In the year in which the ordinance establishing the homestead and farmstead exclusion program is enacted, a municipality must notify by first class mail the owner of each parcel of residential property that has not been approved as homestead property or for which the approval is due to expire about the new program. The notices must explain that only properties approved by the county assessor by March 1 of the following year qualify for the exclusions in the program in the year following the year after the ordinance is enacted. This notice may be combined with an annual notice required by school districts under the Taxpayer Relief Act (Act 1 of SS 2006). In addition, by August 13 of each year following the first year the municipality establishes the program, the municipality must notify the owner of each parcel of residential property by first class mail that the owner must submit a completed application to county assessor by December 15 to qualify for homestead or farmstead exclusion. The notice may be limited to owners who are not currently approved or whose approval is due to expire.

**Responsibilities of DCED**. DCED is required to develop a uniform upfront [**exemption form**](https://dced.pa.gov/download/local_government/tax_information/act_32_resources/regulations_and_procedures/lstexemptioncertificate_4_.pdf), a refund form, and technical assistance to facilitate the administration of the LST for political subdivisions and reduce the burden of implementation, accounting and compliance for employers and taxpayers.

**Municipal** [**Ordinances**](https://dced.pa.gov/sites/default/files/uploads/sampleordinance_4_.pdf)**.** Municipalities need to take prompt action to comply with the new LST provisions. In addition, municipalities that change the rate of the LST or impose a new LST need to notify DCED of the new rate by December 1, 2007.[[**5**](https://dced.pa.gov/local-government/local-income-tax-information/local-services-tax/#section_351)] The name of the tax should be changed from the “Emergency and Municipal Services Tax” to the “Local Services Tax.” Deadlines follow.

**New Tax**. Municipalities that desire to levy an LST for the first time to become effective January 1, 2008 will need to enact an ordinance by November 30, 2007 and provide notice to DCED by December 1, 2007.[[**6**](https://dced.pa.gov/local-government/local-income-tax-information/local-services-tax/#section_4)]

**Modified OPT/EMST**. Municipalities that desire to change the rate of their current OPT/EMST will need to enact an ordinance by November 30, 2007 and provide notice to DCED by December 1, 2007.[[**7**](https://dced.pa.gov/local-government/local-income-tax-information/local-services-tax/#section_351)]

**Existing EMST**. Even though the rate of the EMST/LST will not be changed, municipalities that enacted a new EMST or increased the rate of the OPT since December 1, 2004 and where the combined rate (with its school district) exceeds $10 should reenact their EMST ordinance to reflect the new LST provisions, including the low income exemption, by December 31, 2007.[[**8**](https://dced.pa.gov/local-government/local-income-tax-information/local-services-tax/#municipalities_that)]

**No Change**. Municipalities that adopted an OPT/EMST of $10 or less prior to December 1, 2004 and that do not desire to change the rate of the tax do not need to enact a new ordinance unless the municipality desires to grant a low-income exemption.[[**9**](https://dced.pa.gov/local-government/local-income-tax-information/local-services-tax/#section_10)]